BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey	Chair
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Don Storm	Commissioner

In the Matter of the Petition of Northern States Power Company to Establish an Electric Rate Discount for Certain Low-Income Electric Customers

ISSUE DATE: August 6, 1997

DOCKET NO. E-002/M-94-925

ORDER ACCEPTING REPORT WITH CONDITIONS AND REQUIRING FILINGS

PROCEDURAL HISTORY

In 1994, the Minnesota legislature enacted Minn. Stat. Section 216B.16, subd. 14. This statutory subdivision requires a public utility with more than 200,000 residential electric service customers to provide a 50 percent electric rate discount on the first 300 kwh consumed in a billing period by a low-income residential customer. The statute defines "low-income" customer as one who is receiving assistance from the federal low-income energy assistance program.

On January 11, 1995, the Commission issued its ORDER APPROVING LOW-INCOME DISCOUNT in the above-captioned docket. In that Order the Commission approved the low-income rate proposal submitted by Northern States Power Company (NSP or the Company) pursuant to the statute. The Order required NSP to file periodic reports regarding administrative costs and savings associated with the program.

On September 30, 1996, NSP filed its interim report. The information in the report included the level of participation in the program, program discount costs, tracker balances, customer payment histories, and administrative expenses. The report showed that the program costs and participation levels had been lower than anticipated.

On December 2, 1996, comments were filed by the Department of Public Service (the Department) and Energy CENTS Coalition (Energy CENTS).

On January 30, 1997, NSP filed a revised interim report. The Company stated that 2,247 eligible customers had failed to receive the discount in the 1995-1996 Low Income Home Energy Assistance Program (LIHEAP) year. Another 3,382 customers had not received the full discount to which they were entitled. NSP credited additional discounts of $447,355 to customers' accounts to adjust for these errors, and revised the schedules in its report to reflect the additional customers and discounts. NSP stated that it is addressing this problem through management improvements such as cutting unnecessary accounting steps, putting the project in the hands of experienced employees, and increasing the Company's community outreach and customer education.

The report showed that the Company had a tracker balance of $7,502,723 as of December, 1996.

On March 3, 1997, the Department filed comments on the revised report. The Department continued to recommend approval of the report with modifications.

On March 13, 1997, the Department and NSP filed reply comments.

The matter came before the Commission for consideration on July 8, 1997.

FINDINGS AND CONCLUSIONS

I. INTRODUCTION AND SUMMARY OF THE ORDER

NSP's interim report satisfactorily described the program discounts offered, program participation, administrative costs, rate recovery, and customer payment histories. NSP's report fulfilled the reporting requirements from the Commission's January 11, 1995 Order.

No party objected to the Company's interim report. In their comments, the parties raised four main issues arising from the report: recovery of the tracker imbalance; level of interest on the tracker; Energy CENTS' arrearage forgiveness proposal; and Energy CENTS' penalty proposal. The Commission will consider these issues in turn. The Commission will then describe the compliance filings it will require in this docket.

II. THE COST RECOVERY PLAN

A. The Issue

In its report, NSP offered two options for dealing with the program tracker balance. Both methods would attempt to address the Company's overrecovery of the costs of the program.

Under Method A, NSP would zero out the tracker balance through a one-time ratepayer refund based on kWh usage for residential customers and on a lump sum recovery for Commercial and Industrial (C&I) customers. NSP would also prospectively adjust rates to recover the current estimated annual cost of the discount program. Rate recovery would be through the energy charge for residential customers and through the monthly customer charge for C&I customers. Under Method B, NSP would not offer refunds. The Company would instead use the tracker balance in place of rate recovery to offset the net cost of the discount program. NSP estimated that the tracker balance would cover the cost of the discount program for approximately two years. NSP preferred this method of balance disbursement because it would avoid a complex refund process and because NSP believes the status of federal energy assistance funding is uncertain. Since Minn. Stat. Section 216B.16, subd. 14 requires program participants to be receiving assistance from such funding (on which state LIHEAP assistance is based), a reduction or elimination of the federal assistance program could substantially impact NSP's discount program.

Energy CENTS supported NSP's second method of disbursing the tracker balance, believing that the program could thereby continue for a time even if LIHEAP funding were reduced or eliminated. Energy CENTS stated that NSP could use some of the tracker balance to broaden participation in the program, to provide an arrearage forgiveness program, and to assess the effects of the program on customers' ability to pay.

The Department recommended adoption of the Company's Method A of tracker balance disbursement with some modifications. The Department proposed a one-time, lump-sum refund through customer credits, and ongoing adjusted rate recovery through the customer charge for residential and C&I customers.

B. Commission Action

Minn. Stat. § 216B.16, subd. 15 requires the Commission, in conjunction with the Department and the Commissioner of Economic Security, to review utility low-income discount rate programs. The statute also requires the three agencies to submit a report to the legislature concerning the low-income programs by January 1, 1998.

The Commission anticipates that the January 1, 1998 report to the legislature may contain information significant to the assessment of NSP's plan.

At that time, the Commission can also consider the direction federal energy assistance funding is heading. The Commission should by then have more information regarding the level of proposed federal and state energy assistance funding for 1998-1999. The Commission will be in a better position to analyze the effects of any LIHEAP changes on levels of discount program participation.

Because the Commission anticipates receiving significant input on NSP's low-income discount in the coming year, the Commission is inclined to favor the cost recovery adjustment method recommended by both NSP and Energy CENTS: NSP's Model B, under which the tracker balance will be used to offset future program costs. This method will provide the opportunity to reduce the ratepayers' payment imbalance, positioning the discount program for a "fresh new look" by a better-informed Commission.

Using the tracker balance to fund the discount program is also more administratively efficient than the Department's refund/rate adjustment method, allowing the Company to address the ratepayer overpayment while avoiding the administrative time and expense of a refund.

The Commission nevertheless remains aware that the NSP discount program is a creature of statute, with statutorily-mandated characteristics and parameters. The Commission must ensure that, absent any legislative changes, the program is not defunded or rendered inoperable. The Commission will therefore give NSP the responsibility of determining the point at which the tracker balance has decreased to the extent that rate recovery must be reactivated in order to sustain the program. At that time, NSP will be required to submit a proposal for a prospective rate recovery plan.

III. INTEREST ACCRUAL ON THE TRACKER ACCOUNT

A. The Issue

The Department recommended that NSP compound interest on the tracker balance on a monthly, rather than yearly, basis.

NSP noted that the Order approving the low-income discount program established a tracker requirement but did not set any interest guidelines. NSP stated that compounding interest annually is consistent with the Company's treatment of interim rates and fuel clause refunds. Compounding interest monthly would further contribute to a ratepayer payment imbalance.

B. Commission Action

Since NSP and the Department have each reached reasonable interpretations of the tracker balance interest issue, the Commission will here clarify its interest requirements. The Commission will require NSP to continue applying interest to the tracker balance at the prime rate, but will require the Company to convert from annual to monthly compounding. This method is consistent with NSP's treatment of its gas supplier refunds[1] and with normal procedures in most financial institutions.

The Commission agrees with NSP that the interest modification should be made as a one-time adjustment to the tracker balance in the month the Company receives this Order, and applied prospectively thereafter. As part of its compliance filing, NSP should include its spreadsheet supporting the interest adjustment.

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[1] See, In the Matter of a Petition by Northern States Power Company--Gas Utility for a Variance from Minn. Rules 7825.2700, Subp. 8, Docket No. G-002/M-96-625.

IV. ENERGY CENTS' ARREARAGE FORGIVENESS PROPOSAL

A. The Issue

Energy CENTS gave three main reasons that the Commission should add an arrearage forgiveness mechanism to NSP's discount program. First, applying the arrearage forgiveness to a portion of low-income discount program participants would enable NSP to measure the impact of this element on arrearages and payment behavior. Second, the arrearage forgiveness mechanism would make the average monthly discount a more significant form of assistance than it currently is. Third, Energy CENTS stated that arrearage forgiveness programs have been shown to benefit utilities, in terms of collection expenses and bad debt reductions, as well as low-income customers.

Both NSP and the Department opposed Energy CENTS' request to add an arrearage forgiveness mechanism to the program. NSP stated that the addition would be beyond the scope of the governing statute. The Department stated that the addition of an arrearage forgiveness mechanism at this stage would impair regulatory assessment of the program and the Commission's January 1, 1998 report to the legislature regarding low-income discount programs.

B. Commission Action

The Commission will not require the addition of an arrearage mechanism to the NSP low-income discount program at this time. The Commission agrees with the Department that this time of program initiation, assessment, and regulatory reporting is the wrong time to enter new variables into the mix.

The Commission notes that it will be requiring NSP to continue tracking its program revenues and costs, and to submit extensive compliance data on the program. This information should help Energy CENTS continue to evaluate the effectiveness of the discount program and of any arrearage forgiveness mechanism the organization considers.

V. ENERGY CENTS' ERROR PENALTY PROPOSAL

A. The Issue

Energy CENTS noted that NSP was late in bringing approximately 3,000 eligible customers into the discount program. Energy CENTS suggested that NSP could have made greater effort to prevent such oversights from occurring. Energy CENTS recommended that the Commission penalize NSP "on some formulaic basis" for failing to apply the discount in a reasonable time period.

NSP replied that no penalty is warranted. The Company investigated the errors, took steps to correct them in the future, and credited customers for any late-payment fees that were assessed.

B. Commission Action

Upon discovering that it had overlooked customers eligible for the low-income discount, NSP immediately informed the Commission, the Department, and Energy CENTS. NSP then worked to identify all eligible customers who had not received the proper discount levels and to correct their accounts. The Company ensured that the customers were made whole by crediting back any late-payment fees. Finally, NSP instituted changes in the administration of the program to correct the implementation, training, and auditing features that resulted in the errors.

The Commission is satisfied that NSP has made reasonable steps to correct its inadvertent program administration errors, to ensure that the mistakes will not be repeated, and to relieve customers of any resulting financial consequences. For these reasons, the Commission will not penalize NSP for its untimely application of the discount program.

V. FURTHER FILINGS

The Commission has decided in this Order to require NSP to use the tracker balance to fund the current discount program. The Commission will require the Company to submit a compliance filing reflecting this decision.

All parties agree that further assessment of this program is necessary. The Commission will therefore require NSP to continue submitting its annual compliance filings on the tracker, as established in the original Order approving the discount program. The Commission notes that the next such filing will be due September 30, 1997.

The Commission will also follow the Department's suggestion and require the Company to file further information regarding future administration of the program. In its next rate case, NSP should supply alternative methodologies that would either permanently retire the tracker account or provide for future rate recovery.

ORDER

1. The Commission accepts NSP's revised January 30, 1997 low-income discount program report, with the following conditions:

    - NSP shall apply its rate recovery adjustment Method B, under which the Company will use the tracker balance to offset future program costs. Within ten days of the date of this Order, NSP shall submit a compliance filing reflecting this adjustment plan, including its spreadsheet supporting the interest adjustment from annual to monthly interest accrual. NSP shall also submit a proposal for a prospective rate recovery plan, at the point at which NSP's tracker balance has decreased to the extent that rate recovery must be reactivated in order to sustain the program.

    - NSP's tracker balance shall accrue interest at the prime rate, compounded monthly. NSP shall reflect this change with a one-time adjustment to the tracker balance in the month the Company receives this Order, and applied prospectively thereafter.

2. On or before September 30, 1997, and continuing on an annual basis thereafter, NSP shall submit compliance filings on the tracker balance, showing the recovery of revenue losses and costs due to the program.

3. In its next rate case, NSP shall file alternative methodologies that would either permanently retire the tracker account or provide for future rate recovery.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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